

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4258-03
BILL NO.: HCS for HBs 1847, 1356, 1593 and 1764
SUBJECT: Retirement
TYPE: Original
DATE: March 13, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
All State Funds	(\$15,468,026)	(\$16,702,498)	(\$16,702,498)
Highway Fund	(\$6,487,912)	(\$7,924,716)	(\$7,928,904)
Total Estimated Net Effect on <u>All</u> State Funds	(\$21,955,938)	(\$24,627,214)	(\$24,631,402)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Joint Committee on Public Employee Retirement** have reviewed this proposal and have determined that it represents a “substantial proposed change” in future plan benefits as defined in section 105.660(5), RSMo. Therefore, an actuarial cost statement must be provided prior to final action on this legislation by either legislative body or committee thereof.

Officials of the **Office of Administration** assume fiscal impact would be determined by the Missouri State Employees’ Retirement System.

Officials of the **Missouri State Employees’ Retirement System (MOSERS)** assume the proposal would increase the benefit multiplier in the Missouri State Employees’ Plan (MSEP) from 1.6% to 1.7% for all active, terminated-vested, and retired members. Based on an actuarial analysis obtained by MOSERS, the state’s contribution rate would increase from 11.59% to 12.47%, or an annual increase in contributions of \$13,768,053 based on a valuation payroll of \$1,564,551,532 as of June 30, 1999.

In addition, the proposal would allow a retired judge to receive additional cost-of-living adjustments (COLAs) based upon the difference between the judge’s current benefit amount and the amount the judge would have received had the retired judge been eligible to accrue COLAs from the earliest date of retirement eligibility. An actuarial analysis indicates the proposal would require an increase in the state’s contribution rate for the judicial retirement plan from 55.30% to 55.97% of covered payroll. Based on the valuation payroll of \$34,162,013 as of June 30, 1999, the increase in the total annual contribution would be approximately \$228,885. There are no retroactive payments included in this cost.

Further substantive changes in the proposal would modify the basic life insurance provisions for state employees and would allow disability members to also receive a temporary annuity under the MSEP 2000 (the new retirement plan enacted in the prior legislative session). MOSERS officials estimate the cost to implement the proposed basic life insurance benefit change for 48,606 active employees would be approximately \$2.4 million per year. Increasing the present life insurance benefit from \$15,000 to one times annual salary, with a \$15,000 minimum, would increase the annual premium by \$2,392,650. The State’s current annual premium equals \$2,554,731 (48,606 employees x \$15,000 / \$1,000 x .292 x 12 months). The new annual premium would be \$4,947,381. Using the covered state payroll of \$1,388,154,000, divided by \$1,000 equals 1,388,154 in coverage in thousands, multiplied by a premium of .297 per \$1,000 of coverage, multiplied by 12 months is \$4,947,381. Assuming an effective date for this provision of January 1, 2001, costs for FY 2001 would be \$1,196,325. The cost of providing for

ASSUMPTION (continued)

a temporary annuity to disabled members without regard to any prior receipt of federal Social Security Disability Benefits would result in an increase in the state's contribution rate to MOSERS from 11.59% to 11.61%. Based on a valuation payroll of \$1,564,551,532, the annual increase in contributions would approximate \$312,910.

The total cost to the state of the benefit provisions affecting plans administered by MOSERS would be \$16,702,498 annually. Costs for FY01 would approximate \$15,468,026, representing six months' costs for the life insurance provisions (effective date January 1, 2001), ten months' costs for the judicial plan provisions (any monthly benefit increases to be effective September 1, 2000), and twelve months' costs for provisions increasing the benefit multiplier and disability benefits (emergency clause applies).

Officials of the **Highway and Transportation Employees' and Highway Patrol Retirement System** assume the proposal would increase the benefit multiplier in the closed plan from 1.6% to 1.7% and from 2.13% to 2.27% for uniformed patrol. Based on an actuarial analysis, annual increases in contributions to the system are estimated to be \$5,133,600 for the Department of Transportation (MoDOT) and \$2,449,200 for the Missouri Highway Patrol (MHP).

Officials from the **Department of Transportation (MoDOT)** also assume there would be a fiscal impact to MoDOT from the life insurance provisions of the proposal. Currently, MoDOT pays monthly costs of \$0.17 cents per \$1,000 of coverage for the \$15,000 state paid life insurance. Increasing the coverage to each employee's annual salary would result in total coverage for MoDOT employees of \$216,872,767. Total premiums for this coverage would be \$36,868 per month (\$216,872,767 times \$0.17/\$1,000). MoDOT's currently monthly premiums are \$16,863 (\$15,000 in coverage times \$0.17/\$1,000 times 6,613 employees). Therefore, the annual increase in premium costs would be \$240,060 (\$36,868 less \$16,863 equals \$20,005 times 12 months). Assuming an effective date of January 1, 2001, the total fiscal impact to the Highway Fund would be \$120,030 for FY 2001 and \$240,060 for FY 2002 and FY 2003. Although the proposal allows the Highway Commission to elect whether or not to provide the insurance, MoDOT assumes the Commission would elect to do so.

In response to a proposal containing the life insurance provisions in this legislation, officials from the **Department of Public Safety - Missouri Highway Patrol (MHP)** assume the proposal will increase premium costs. Total insurance coverage after increasing individual coverage to annual salary amounts would be \$76,298,704. Currently MHP pays a premium of \$0.17 per month per \$1,000 in coverage, and they assume the rate would not change. MHP's currently monthly premiums are \$5,480 (\$15,000 in coverage times \$0.17/\$1,000 times 2,149 employees). Assuming a 2.5% annual inflation rate in the salary base, monthly premiums would increase by

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\$8,147 in FY 2001 (to \$13,627 per month), \$8,488 in FY 2002 (to \$13,968 per month), and \$8,837 in FY 2003 (to \$14,317 per month). Assuming an effective date of January 1, 2001, the total fiscal impact to the Patrol would be \$48,882 for FY 2001, \$101,856 for FY 2002, and \$106,044 for FY 2003. For fiscal note purposes, the net impact to the Highway Patrol is reflected in the State Highway Fund since the majority of personal services costs for the Patrol are charged to that fund.

Officials of the **Missouri Consolidated Health Care Plan** assume the provisions regarding health insurance coverage would have no fiscal impact on their agency.

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - State Government</u>			
ALL STATE FUNDS			
<u>Costs - State Agencies</u>			
Increased basic life insurance coverage	(\$1,196,325)	(\$2,392,650)	(\$2,392,650)
Increased contributions to MOSERS	<u>(\$14,271,701)</u>	<u>(\$14,309,848)</u>	<u>(\$14,309,848)</u>
Total <u>costs</u> - State Agencies	<u>(\$15,468,026)</u>	<u>(\$16,702,498)</u>	<u>(\$16,702,498)</u>
HIGHWAY FUND			
<u>Costs - MoDOT</u>			
Increased retirement contributions	(\$4,278,000)	(\$5,133,600)	(\$5,133,600)
Increased basic life insurance coverage	<u>(\$120,030)</u>	<u>(\$240,060)</u>	<u>(\$240,060)</u>
Total <u>costs</u> - MoDOT	(\$4,398,030)	(\$5,373,660)	(\$5,373,660)
<u>Costs - MHP</u>			
Increased retirement contributions	(\$2,041,000)	(\$2,449,200)	(\$2,449,200)
Increased basic life insurance coverage	<u>(\$48,882)</u>	<u>(\$101,856)</u>	<u>(\$106,044)</u>
Total <u>costs</u> - MHP	(\$2,089,882)	(\$2,551,056)	(\$2,555,244)
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>(\$6,487,912)</u>	<u>(\$7,924,716)</u>	<u>(\$7,928,904)</u>

	FY 2001	FY 2002	FY 2003
<u>FISCAL IMPACT - Local Government</u>			
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

The proposal makes numerous changes to the Missouri State Employees' Retirement System and the Highways and Transportation Employees' and Highway Patrol Retirement System. It would increase the benefit multipliers in the Missouri State Employees' Retirement System and the Highway and Transportation Employees' Retirement System. Other provisions include increasing life insurance coverage for state employees from \$15,000 to one times annual salary (with a \$15,000 minimum) and providing for a temporary annuity for disabled members without regard to prior receipt of Social Security Disability Benefits. The proposal would allow a judge who retired prior to August 28, 1995 to receive additional cost-of-living adjustments (COLAs) based upon the difference between the judge's current benefit amount and the amount the judge would have received had the retired judge been eligible to accrue COLAs from the earliest date of retirement eligibility. Spouses or unemancipated children of deceased persons or persons receiving or entitled to receive an annuity or retirement benefit or disability benefit may elect health care coverage under certain conditions.

The proposal has an effective date of July 1, 2000, except the provision regarding life insurance which has an effective date of January 1, 2001. Monthly benefit increases under the judicial retirement plan provisions are to become effective September 1, 2000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Office of Administration
Missouri State Employees' Retirement System

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SOURCES OF INFORMATION (continued)

Highway and Transportation Employees' and Highway Patrol Retirement System
Department of Transportation
Department of Public Safety - Missouri Highway Patrol
Missouri Consolidated Health Care Plan

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
March 13, 2000